

THE MAGAZINE OF CORPORATE MANAGEMENT

BUSINESS MONTHLY

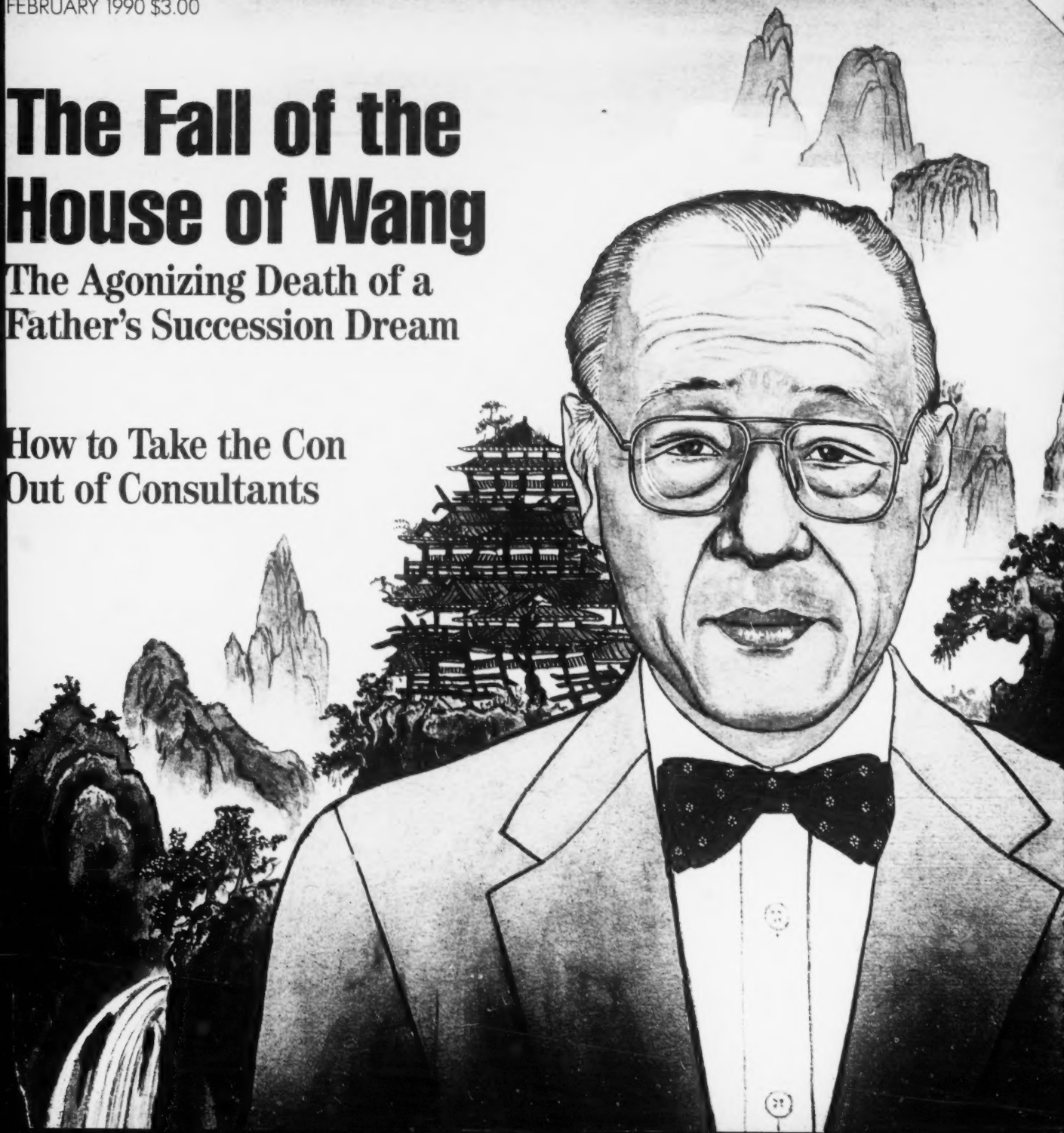
FEBRUARY 1990 \$3.00

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BUSINESS MONTH

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FAXPOLL FEEDBACK: LIP SERVICE TO THE LONG TERM

1 It was hardly a contest. American Airlines' Bob Crandall buried his opponent with 98.8 percent of the vote. Blame us for some of the lopsided results: Perhaps we loaded the question by labeling the motivations of United Airlines' Steve Wolf "a fast payoff."

2 It came as no surprise that most of those who decried Wolf—96.9 percent—also scolded managers for focusing too much on quick results. Which raises a vexing question: If such an overwhelming majority of you decision makers out there are throwing in with the long-term crowd, how come corporate America is still at the mercy of short-term aggrandizers?

3 Here, too, you either strongly agreed (69.2 percent) or simply agreed (28.4 percent) that short-term thinking hurts our competitive position in the world. One of you murmured: "If you don't survive the short term, there won't be a long term!"

4 A lot of you took yourselves to task on this one: 68.9 percent blamed management self-interest ("That's spelled GREED," one of you wrote) for our failure to invest for the long term. Shareholder pressure garnered 44.9 percent of the vote, while tax laws and government regulation received, respectively, 12.3 percent and 6.2 percent.

5 What's the most effective way to safeguard a stronger future? Invest in it—provided Uncle Sam helps out: 37.6 percent of

It's gratifying to learn that so many of you can get so worked up over an abstract issue. But the debate over long-term versus short-term strategies touched a lot of raw nerves, and drew well over 2,000 responses. We saw faxes marked up in a pen-breaking frenzy, additional thoughts scribbled by the hundreds—even, in a handful of cases, two-page dissertations on the subject.

THE BUSINESS MONTH

FAXPOLL

Whose side are you on?

1. Who pursued the right course, Wolf or Crandall?
2. Do managers focus too much on the short term?
3. Short-term thinking harms America's competitive position in the world.
4. Executives often fail to invest for the long term because of:
 - Shareholder pressure — Management self-interest
 - Tax laws — Government regulation
5. What ensures a stronger future for corporate America?
 - Legislation to penalize LBOs
 - Liberal R&D and investment tax credits
 - Tax breaks on long-term capital gains
 - An unfettered free market
6. How can a CEO strengthen employees' commitment to the company?
 - Give them more say in day-to-day operations
 - Involve them in setting corporate strategy
 - Introduce an ESOP
 - Tie pay to long-term performance
 - Other (please specify)
7. Do you sense a shift in management values from deal making to company building?

The margin of error is plus or minus 3.3 percentage points.

EARLY RETURNS: WAKING UP ... ANGRY

Judging by the initial responses to January's poll, the odor of *sake* is not to your liking. It's okay if Japan builds a new auto plant in the U.S. But snatching up national landmarks or institutions like CBS Records raises your patriotic hackles. Is there anything to gain from Japan's presence in the U.S.? Are managers willing to work for a Japanese boss? We'll have those answers next month. Until then, Do you play dirty? See the current FaxPoll on page 76.

you cited liberal R&D and investment tax credits.

Where are all you laissez-faire champions? Only 27.8 percent named an unfettered free market as the most effective solution. A hefty 55.1 percent scorned the idea, rating it third best (28 percent) or least effective (27.1 percent).

Capital-gains breaks fared even worse—21.9 percent calling it the most effective way to strengthen our future. In last place: laws to penalize LBOs.

6 It won't cost you a dime to elicit stronger commitment from employees. Just give them more say in day-to-day operations, as 50.6 percent of you suggested. Pay for performance was endorsed by 39.5 percent; 26.7 percent approved of employee involvement in setting strategy. ESOPs didn't fare very well (17.4 percent).

Thirteen percent of you checked off the "other" category. "Treat employees like adults and partners," one reader pointedly wrote. Many of you suggested open and frequent communication of your goals to employees, as well as listening to their ideas. A few called for implementing a no-layoff policy. Some proposed that corporate leaders could do a better job of setting the example of commitment: "Quality starts at the top. Too many borderline CEOs are out there!" one subscriber complained.

7 O ye of little faith. An emphatic 58.6 percent of you sense no shift in management values; 20.8 percent couldn't tell what, if any, change was afoot.

TAKING THE CON OUT OF CONSULTANTS

They can spot a flawed marketing strategy and tell

you how to straighten out a computer mess.

They can also take control of your company.

IN THIS CONSULTANT-MAD era, Bernardo Bertolucci's recent movie, *The Last Emperor*, is must viewing for corporate managers. As his predecessors had done for 2,000 years before him, Pu Yi, the boy ruler, depended heavily on a phalanx of eunuchs. With no outside emotional attachments, the eunuchs were supposed to be loyal only to the emperor, managing the palace in a disinterested manner. Today, companies pay management consultants huge fees for the same service; they expect the hired guns to give them unbiased advice that will help them survive in the marketplace.

History shows that many Chinese eunuchs had their own agendas after all, taking advantage of the trust placed in them to amass enormous power and personal fortunes. Bertolucci's last emperor nominally ruled all of China. In reality, he was a puppet of his eunuchs. Managers beware: Consultants may take control of your business too.

Don't flip the page. This is not going to be another diatribe against consultants. The annual rev-

enues of the consulting industry are now estimated at as much as \$15 billion, and not all of that money can be corporate waste. Consultants can be valuable, the experts say, but should be treated like arsenic: therapeutic in small doses, deadly in large ones. Consulting firms should be relegated to specialist roles. They should not be called in to help set policy. Isn't that what managers are for?

Critics also decry the latest consulting fad: implementation (as in, "At Bain & Company, we don't deliver reports; we deliver results"). Companies that allow consultants to stay on to put into practice what they preach may never get rid of them. Astute managers keep consultants on a tight rein. They know that consultants have to look out for themselves—and can't be completely objective. They take the *con* out of consulting.

Baxter International, the big hospital-supply company, may provide a textbook example of how consultants can take over. Baxter has employed Bain & Company for a wide variety of assignments since 1983, including many related to Baxter's

BY GREGORY J. MILLMAN



splashy 1985 acquisition of American Hospital Supply. Despite Bain's widespread help, Baxter has failed so far to meet its postmerger earnings targets. The company says unforeseen competitive factors, including price wars on intravenous fluids, have prevented the merger from being as profitable as projected. But insiders say the problems are at least partly attributable to out-of-control consultants.

Sources close to the situation say that around the time of the merger, the consultants took on far more work

than they could do competently. "We had too many Bain teams working," says one management man. "We ended up with a lot of good work being done, but not much in the way of follow-up." Some suspicious line managers treated Bain consultants as top-management spies and were reluctant to work with them. Baxter sources blame the consultants for not telling the executives that some of the troops were stonewalling. "They were close to the situation and knew where they weren't succeeding," says one source.



One former Baxter manager says Bain consultants often usurped management authority—perhaps out of frustration that many of their ideas hadn't worked. This executive still bristles at the thought of a Bainie who went behind his back to the CEO's office, demanding that he, the consul-

tant, have a greater say in the project that the Baxter manager was supposed to be running. Bain executives today admit that they bit off more than they could chew at Baxter at the time of the merger, but they say they later cut back their activities. In any case, the consulting firm remains a fixture at the hospital-supply company. Baxter President Wilbur Gantz says the merger has met its "synergy goals," though profits have fallen short of forecasts. He insists that the consultants' work has been very satisfactory.

Baxter seemed to ignore evidence that its consultants were committing the profession's biggest sin: putting their own billings ahead of the client's profits. Consulting firms are masters at discovering new problems that need to be studied. Former consultant S. Woodworth Chittick, now vice president for corporate planning at Ocean Spray Cranberries Inc., recalls the routine. "You'd complete one assignment, the problem you'd come for, and you'd find two more problems requiring another engagement," he says.

"That was always part of your assignment: What's next?"

This does not necessarily mean that consultants are an unscrupulous lot. Michael White, senior vice president for Avon Product's Parfums Stern subsidiary and a former consultant, says that the experience of the typical consultant tends to be in advising, not working on the front line. This gives him a different, if not always realistic, perspective. A consultant's lack of hands-on managerial experience may become an even bigger problem as he moves into his new role as an on-site implementer.

As some critics see it, the implementation movement is just another excuse for consultants to become permanent fixtures in their clients' expense columns. Consultants have always hyped themselves as indispens-

Who's Who and What's

The industry's major players strive to build broad-based revenue, most of them are stronger in some areas than others.

	1988 Revenues*	% Revenue from U.S.*
McKinsey & Company New York	\$620 million	43%
Booz, Allen & Hamilton New York	\$449 million	84%
Alexander Proudfoot Company West Palm Beach, Florida	\$230 million	30%
Bain & Company Boston	\$220 million	70%
Arthur D. Little Cambridge, Massachusetts	\$201 million	77%
The Boston Consulting Group Boston	\$110 million	50%
A.T. Kearney Chicago	\$105 million	64%
Cresap New York	\$62 million	66%
United Research Company Morristown, New Jersey	\$54 million	82%
Strategic Planning Associates Washington, D.C.	\$52 million	73%
Temple, Barker & Sloane Lexington, Massachusetts	\$50 million	90%
The MAC Group Cambridge, Massachusetts	\$45 million	53%
Monitor Company Cambridge, Massachusetts	\$30 million	50%
Marakon Associates Greenwich, Connecticut	\$20 million	66%

The Accounting Firms

The consultant arms of the big accounting firms are strong in consulting revenues. But critics say they are over-reliant on a few clients.

	1988 Revenues*	% Revenue from U.S.*
Anderson Consulting Chicago	\$1,120 million	57%
Ernst & Young New York	\$743 million	63%
Deloitte & Touche Wilton, Connecticut	\$588 million	54%
KPMG Peat Marwick New York	\$570 million	54%
Coopers & Lybrand New York	\$447 million	52%
Pricewaterhouse New York	\$385 million	50%
Laventhol & Horwath Philadelphia	\$145 million	83%

*Source: Consultants News

Up in Consulting

based organizations equipped to handle any corporate problem imaginable. But in real-
others—and some have notable weaknesses.

Clients	Strengths	An Outsider's Inside View
Hewlett-Packard, GM, AT&T, Barclays Bank, Nissan.	Strategic planning—the best in the business.	Snooty, blue-blooded culture. Very pricey. Originally thought information technology was low class; now trying to catch up, buying ICG, a Saatchi affiliate.
Dayton Hudson, CIA, USAir, Renault, Pentagon, IBM.	Strategic planning, information systems.	Number one in Washington and once mentioned in same breath with McKinsey. Reputation never the same since 1976 management buyout.
New York Life Insurance, Tecumseh Products, Amoco.	Productivity, cost reduction.	Can't shake "hatchet man" image stemming from past one-shot, fire-'em-all cost-cutting projects. Competitors rarely compliment its work.
Burlington Industries, Monsanto, Wells Fargo.	Implementation, especially on massive scale.	Epitome of consultant that takes over. Insists CEOs grant it enormous power; often places consultants in line positions. Won't work for clients' competition.
U.S. Postal Service, Eurotunnel, Sears Roebuck.	Research, technology.	Known for its work in the lab, not the boardroom. Values engineers more than MBAs. Most recruits honed skills in industry. Big in environmental cleanup.
Motorola, NYNEX, Brunswick, Alcan Aluminum.	Strategic planning, "speeding" products to market.	Gone are glory days when firm pioneered the experience curve and market-share theories. Slow to sniff implementation trend.
McDonnell Douglas, Motorola, Unilever, Lufthansa.	Distribution and logistics.	Hefty overseas. CEO Fred Steingraber spent half his career outside the U.S. Ranks just behind top gun McKinsey in Western Europe. One of few still in executive-search business.
World Bank, CBS, General Electric.	Organizational analysis, banking.	Has never been as big or as good as its reputation suggested. Still catching up despite 1983 acquisition by deep pockets Towers Perrin.
Eastman Kodak, Federal Express, 3M, Rockwell, Xerox.	Implementation, especially restructurings.	Leanest operator in the trade—only two offices, in New Jersey and London. Works solely at client sites. Stellar growth for 15 years.
Equitable, British Telecom.	Strategic planning, especially for retail and telecommunications.	Yearns to be big-league player. Recently announced acquisition by Marsh & McLennan may make it happen.
AT&T, Brunswick, Citicorp, Hallmark, Rhone-Poulenc.	Market research, transportation industry.	Smart move in 1987. Sold out to Marsh & McLennan, sewing up funds for expansion, yet kept its independence.
Merrill Lynch, Mead, Liberty Life Insurance, Teledyne.	"Soft" issues (corporate culture, CEO image).	Network of leading business-school professors, such as Harvard's Ted Levitt, lures clients and keeps firm wired to latest management thinking.
McGraw-Hill, Pacific Telesis, AT&T.	Market analysis.	A real comer. No longer living off affiliation with superstar Harvard professor Michael Porter. Revenues doubled almost every year since 1983 founding.
Westinghouse, Marriott, Union Carbide, Walt Disney, Sun.	Planning that emphasizes shareholder value.	Mention Marakon and most would-be clients ask, Who? But highly regarded by competitors, especially for targeting acquisitions and divestitures.

Growing but Still Learning

experts in information systems, and now Andersen and Ernst & Young actually outpace
CPAs' commitment to broad-based consulting has been tepid.

Clients	Strengths	An Outsider's Inside View
Lockheed, Philips International, Toshiba, United Parcel Service.	Cream of the crop in information systems.	The Marine Corps of the trade. Treats all clients the same—arrogantly—but takes on everything from \$10 million jobs to routine programming that others shun.
Sundstrand, LTV, Owens-Illinois, Unisys.	Health care, manufacturing.	Before 1989 merger, neither partner strongly supported consulting efforts. Will the combined outfit do any better?
Caterpillar, Safeway Stores, Allied-Signal, Unocal.	Reorganizations, retail.	Another merger play. Deloitte consulting never matched firm's rep as auditor. Touche's most valuable asset is Braxton Associates, a strategic-planning spinoff from BCG.
Aetna Life & Casualty, J.C. Penney, Eagle-Picher Industries.	Information technology.	Charlie Hustle. Consultants who win new business reap hearty rewards. Spreads itself too thin to be considered expert in any particular area.
The Limited, US Sprint, Scott Paper.	Quality control, just-in-time inventories.	Resisting merger trend. If bigger proves to be better, as other CPAs think, it may be left behind.
CBS Records, Amoco Chemical, Salomon Brothers.	Technology, especially for financial services and utilities.	Passive Patrick. Expects clients to seek firm out. Late getting into advanced consulting services, but now growing rapidly.
Holiday, Marriott, Blue Cross/Blue Shield.	Financial planning.	Cultivates midsized companies, many family owned. Takes risky clients, such as companies nearing Chapter 11, that other firms turn away.

The Niche Players

As old-line firms aspire to be all things to all people, others zero in on specialties. These boutiques give advice on everything from corporate logos to relocating employees to running a body shop.

	1988 Revenues	Specialty
Altman & Weil Ardmore, Pennsylvania	\$5 million	Law firms and corporate legal departments.
Automotive Service Consultants Birmingham, Alabama	\$2 million	Auto-body shops.
The Falls Management Institute Raleigh, North Carolina	\$9 million	Construction industry.
Insurance Management Group Stamford, Connecticut	\$750,000	Operations advice for property/casualty companies.
Kaiser Associates Vienna, Virginia	\$5.2 million	Comparing companies against their competition.
Lippincott & Margulies New York	\$9 million	Corporate identification.
Moran, Stahl & Boyer New York	\$14 million	Relocation of facilities and staff.
Rath & Strong Lexington, Massachusetts	\$5.5 million	Just-in-time manufacturing.
Ranzheimer International Rochester, Wisconsin	\$12 million	Travel and living costs.
Thomas Group Irving, Texas	\$10 million	Speed marketing: getting clients' products to market faster.

Everybody Benefits

It's no surprise that the biggest specialty consultants are experts on employee benefits. As clients are forced to spend more money and time on fringes, consulting revenues have leaped.

	1988 Revenues	Specialty
William M. Mercer New York	\$523 million	Group benefits.
TPF&C New York	\$384 million	Actuarial work; communicating packages to employees.
The Wyatt Company Washington, D.C.	\$333 million	Flexible compensation.
The Hay Group Philadelphia	\$210 million	Salary administration.
Hewitt Associates Lincolnshire, Illinois	\$202 million	Flexible compensation.

able, insisting that problem solving is an art beyond the grasp of a line manager. Now they are even saying that managers aren't smart enough to implement the consultants' reports. Part of the rationale is that the solution to many of today's problems includes the use of complicated technical systems, which many corporations may not be equipped to install.

The problem, say the critics, is that once the implementers get inside, they quickly lose the detachment that is supposed to be the consultant's long suit. Their intense commitment to their own theories can cause resentment among the home troops. At worst, the rank and file look on the consultant's employees as competitors and start ignoring their recommenda-

tions. "Somewhere in this process, you must have the buy-in of management," says one executive. "If you keep consultants involved from beginning to end, you'll never get it implemented, because management will never take ownership."

Detractors say consultants often produce nothing but eyewash. Carl Icahn, corporate raider and head of TWA, loves to tell about his sole encounter with the profession. When Icahn acquired ACF several years back, he found a staff of 200 MBA types occupying 10 floors in the company's New York headquarters. He wondered why they were there but didn't feel he could get rid of them without finding out if they did anything useful. Icahn brought in a consultant. "Nice guys," Icahn recalls, "and they say, For a quarter of a million bucks we'll figure out what they do and explain it to you."

Five weeks later, the consultants presented Icahn with a massive book loaded with charts. The raider pushed the volume aside, saying, "Look, here's your quarter-of-a-million-dollar check and here's a yellow piece of paper. Now, just tell me what it is they do." The head consultant then confessed. "Okay, Mr. Icahn, you've been straight with us, we'll be straight with you," he said. "We can't figure out what they do, either." Icahn got rid of the staff. He says he "retired" the employees, giving them golden parachutes. He adds that he hasn't missed them—or used consultants—since. Icahn says that while consultants are often necessary, generally the growth of consulting is just another symptom of mediocre American management. "Corporate managers have built up tremendous bureaucracies, and in order to justify themselves, they sometimes bring in consultants to figure out what to do," he says.

Not all executives can blow away the chaff as well as Carl Icahn did. One of the ironies of the consulting game is that consultants often tell CEOs what they should already know. In many companies, information and ideas don't percolate upward from the ranks; communication is

the best-organized alumni activities of any major consulting firm—Booz Allen, Bain, BCG, and ADL are all light years behind. The firm also pays unusual attention to smoothing things over with departing consultants. In a business where the emphasis on staff quality and the up-or-out policy necessitates high turnover and many who leave join potential clients, there is always a risk that bad feelings could undermine future business. Whether for humanitarian reasons or just because it makes good business sense, the firm gets high marks for the generous way it treats its employees when they leave. As one alumnus recalls, "McKinsey has a very well greased exit policy. They give you plenty of time to search for a new job and all sorts of career counseling. It makes you feel better about the place later on."

Whether or not the alumni generate new business, McKinsey generates jobs for alumni. Dozens made the contacts that led to their current jobs while working on McKinsey studies. Major clients such as Citibank, PepsiCo, Merrill Lynch, American Express, and GE all have more than a dozen McKinsey veterans apiece. Quite a few client captures include top managers: RJR Nabisco's Lou Gerstner, IDS Financial Corporation's Harvey Golub, and Lotus Development's Jim Manzi.

The influence of McKinsey's extensive alumni network is likely to grow even larger in the 1990s. On the supply side, the firm is now churning out nearly 250 exes each year. While this pace is unlikely to continue forever, the number of alumni could easily triple by the year 2000. Meanwhile, McKinsey's home base, the U.S. economy, is slowing down. So, for the first time, we may actually be facing a surplus of these high-priced alumni. Whatever the managerial labor market is like in the 1990s, however, we can be sure that more than a few McKinsey veterans will be advising, planning, and managing their way to the top. —JAMES HENRY

the consultant's original proposal to attack the problem includes the important facts and issues.

Consultants can be the answer if the client doesn't have the in-house skill to do the job. "We will employ consultants to analyze health-care benefits, because it's an area we're not heavily staffed in," says Chittick. Consultants also are a good call when a company can't spare the time of managers who would be appointed to an internal study team.

Picking the right consulting firm for the job may be an even trickier exercise than defining the problem. Many big firms maintain that they can handle any sort of assignment, but the truth is they all have their weaknesses. Companies often ignore another seemingly common-sense rule: make sure the consultant is compatible with the corporate scheme. "Suppose your company is consensus-oriented and the consultant is authoritarian," says Ron Brzezinski, a partner in Coopers & Lybrand. "Then you can have excellent solutions, but nobody buys them."

The consulting industry's rapid growth impedes the selection process. As firms get bigger, the lead partners may become so involved with managing their own enterprise that they lose touch with their avowed purpose: helping others manage theirs. The increasing use of technology may confuse clients further. Traditionally, the consulting arms of the big accounting firms have been the experts on high-tech systems. But now, the old-line consulting firms are increasing their competence in the systems area. They are hiring high-tech specialists—niche nerds—as fast as they can find them. Naturally enough, the accounting firms have answered this competitive threat by trying to increase their own expertise as general consultants.

Consultants themselves say that management should keep a close watch on whichever firm it decides to hire. Experts say that clients should

press their consultants early and often for tentative solutions to whatever problem they are studying. They say a good approach is to ask the consultant what he would propose if the assignment had to be terminated in a month. If the response is lame, management should do with the consultant what it would do with a permanent employee: Warn him, and if he doesn't shape up, fire him.

Four years ago, Avon Products found a unique way to stop spending millions of dollars each year on con-



sultants. It formed its own in-house consulting team. It raided the top consultant firms for experienced hands and recruited MBAs. Avon's home-made team solves problems on demand and provides training for bright newcomers who can later move into management ranks.

Not every company can afford that approach. But Jacobson of Vetco Gray says any organization can practice do-it-yourself consulting. He says that when he does call in consultants, he instructs his people to work closely with them—in order to learn their analytical techniques. Then, the next time a consulting job is in order, the managers can do it themselves. What he's saying is simple: Good managers learn to con the con artists. ■

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